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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, OCTOBER 20, 1999

APPLICATION OF

VIRGINIA ELECTRIC AND
POWER COMPANY

CASE NO. PUE980808

Earnings Test for
Calendar Year 1997

ORDER

On November 5, 1998, Virginia Electric and Power Company ("Virginia Power" or "the Company") filed its earnings test¹ as required by the Commission's August 7, 1998, Final Order in Case No. PUE960296.² Virginia Power's filing was supported by financial and operating data for the twelve months ended December 31, 1997. Its filing reflected a return on equity, after adjustments, of 10.49%.

The Commission Staff filed its report on Virginia Power's earnings test on June 25, 1999. The Staff determined that Virginia Power's 1997 earnings, after regulatory accounting adjustments, generated a 10.96% return on average equity for the

¹ An earnings test is used to measure a regulated utility's ability to recover deferred costs (regulatory assets) through current period earnings in excess of the utility's authorized return.

² Commonwealth of Virginia ex rel. State Corp. Comm'n, ex parte: Investigation of Electric Utility Industry Restructuring- Virginia Electric and Power Company, 1998 S.C.C. Ann. Rep't 322.

1997 test year, on a jurisdictional basis. The Staff stated that such return is sufficient to enable a write-off of \$15,468,000 in deferred capacity costs as part of the \$220 million write-off of regulatory assets agreed to in the Stipulation adopted in Case No. PUE960296. Staff subsequently revised its calculation of the return on equity for the Company to 11.02%, resulting in increasing the recommended write-off to \$17,443,000.

Virginia Power filed a response to the report of the Commission Staff on August 31, 1999. The Company stated it would agree to accept the Staff's recommendation that it write off approximately \$17.4 million in regulatory assets for 1997, subject to certain qualifications, including that future earnings test filed pursuant to the Stipulation will apply the same methodology and comparable adjustments adopted by the Commission in Case No. PUE920041.

NOW THE COMMISSION, upon consideration of the Staff's report and Virginia Power's response, is of the opinion and finds that a ruling on the recommendation contained in the Staff report, as revised, and the Company's agreement to accept the recommendation for the write-off of \$17,443,000, should not be made at this time. We will not bind the Commission, our Staff, or Virginia Power by ruling on issues relative to the Company's annual earnings test prior to the earnings test for the twelve

months ending December 31, 2001, the final such period under the Stipulation. By deferring a final ruling in this matter until the end of the Stipulation period, we will ensure that the Commission retains the ability to consider all issues that will arise during the period of transition to customer choice in retail electric service that may affect the Company's earnings and its ability to write off regulatory assets. Accordingly,

IT IS ORDERED:

(1) The Commission will defer ruling on all issues relative to Virginia Power's earnings, including the Staff's recommendation for a write-off of \$17,443,000 in regulatory assets and the Company's agreement to accept the recommended write-off subject to certain provisions, until the final earnings test under the Stipulation for calendar year 2001.

(2) This matter shall remain on the Commission's docket of pending proceedings.